

Appendix 2

Prudential indicators under the new Prudential Code for capital finance

- The actual capital expenditure that was incurred in 2002/03 and the capital investment programme for the current and future years that are recommended for approval are:

Table 1 - Estimates and Actual Capital Expenditure

	2002/03 £'000 Actual	2003/04 £'000 Estimate	2004/05 £'000 Estimate	2005/06 £'000 Estimate	2006/07 £'000 Estimate
General Fund	1,939	2,601	2,480	1,628	1,184
HRA	2,512	3,481	3,290	3,423	3,294
Total	4,451	6,082	5,770	5,051	4,478

Note: Items that are leased are excluded as these are not classified as capital expenditure.

- Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2002/03 are:

Table 2 - Ratio of Net Financing Costs to Net Revenue Stream

	2002/03 Actual	2003/04 Estimate	2004/05 Estimate	2005/06 Estimate	2006/07 Estimate
General Fund	(3.91)%	(2.87)%	(3.82)%	(3.96)%	(3.40)%
HRA	20.71%	21.03%	23.78%	23.63%	22.91%

The estimates of financing costs include current commitments and the proposals in the budget report.

Note: Babergh has a negative figure for the General Fund due to having no external debt charges combined with investment income on surplus funds. There is a positive figure for the HRA as the council has borrowed internal funds to finance Council Housing expenditure and these costs are reimbursed through housing subsidy.

- Estimates of the end of year capital financing requirement for the authority for the current year and future years and the actual capital financing requirement at 31st March 2003 are:

Table 3 - Estimates and Actual Capital Financing Requirement

	2002/03 Actual	2003/04 Estimate	2004/05 Estimate	2005/06 Estimate	2006/07 Estimate
General Fund	(1,899)	(1,907)	(1,907)	(1,907)	(1,907)
HRA	2,939	2,880	2,880	2,880	2,880
Total	1,040	973	973	973	973

4. The Capital Financing Requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Council does not associate borrowing with particular items or types of expenditure. It is not, however, the intention of the Council to undertake borrowing to finance capital expenditure in the current year or the next 2 years. The Council will finance all capital expenditure by utilising capital receipts, revenue contributions and capital grants and contributions but may need to borrow under the Prudential Code in 2006/07 depending on the latest forecasts of these capital resources and any agreed changes to the council's capital investment plans.
5. The authority has an integrated treasury management strategy and has adopted the CIPFA *Code of Practice for Treasury Management in the Public Services*. Babergh District Council has, at any point in time, a number of cash flows which are positive and negative, and manages its treasury position in terms of its investments and any overdraft in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. Any debt in the form of overdraft arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.
6. CIPFA's *Prudential Code for Capital Finance in Local Authorities* includes the following as a key indicator of prudence:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current year and next two financial years."

The Corporate Director reports that the authority had no difficulty meeting this requirement in 2002/03, nor are there any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in the budget report.

7. In respect of any external debt, it is recommended that the Council approves the following authorised limits for its total external debt gross of investments for the next three financial years, which takes account of the maximum amount to be placed with any investment counterparty and a small contingency. There are no other long-term liabilities such as finance leases. The Council is asked to approve these limits.

Table 4 - Authorised Limits for External Debt

	2003/04	2004/05	2005/06	2006/07
	£'000	£'000	£'000	£'000
Borrowing	3,000	3,000	3,000	3,000
Other Long Term Liabilities	0	0	0	0
Total	3,000	3,000	3,000	3,000

8. The Corporate Director reports that these authorised limits are consistent with the authority's current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Corporate Director also confirms that they are based in the estimate of most likely, prudent but not worst case scenario, **with, in addition, sufficient headroom over and above this to allow for operational management, for example unusual cash movements.** Risk analysis and risk management strategies have been taken into account; as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes.
8. The Council is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects directly the Director of Resource's estimate of the most likely, prudent but not worst case scenario, **without the additional headroom included within the authorised limit** to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in year monitoring by the Corporate Director. Within the operational boundary, figures for borrowing and other long term liabilities are separately identified. The Council do not have any plans to incur any debt and consistent with the definitions in CIPFA's *Prudential Code for Capital Finance in Local Authorities*, overdraft limits are not included within figures for debt. The Council is asked to approve these limits.

Table 5 - Operational Boundary for External Debt

	2003/04 £'000	2004/05 £'000	2005/06 £'000	2006/07 £'000
Borrowing	0	0	0	0
Other Long Term Liabilities	0	0	0	0
Total	0	0	0	0

Note: The operational boundary is currently zero due to the Council's debt-free position. This, in practice means that it is being assumed that no external borrowing will be required up to and including 2006/07. This would be affected by any exceptional cash flow circumstances (which are allowed for in the previous indicator) and future changes to capital investment plans and forecasts of capital resources.

10. The Council's actual external debt at 31st March 2003 was nil.
11. In taking its decisions on the budget, the Council is asked to note that the authorised limit determined for 2004/05 (see Table 4) will be the Statutory limit determined under section 3(1) of the Local Government Act 2003.
12. The estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have previously been taken by the Council are:

Table 6 - Incremental Impact on Council Tax and Housing Rents

	2003/04 £	2004/05 £	2005/06 £	2006/07 £
Band D Council Tax	0	-3.47	+0.72	+1.02
Average Weekly Housing Rent	0	+0.08	+0.06	-0.13

Note: The above are based on the annual capital spending plans outlined in table 1, and the amounts need to be read in conjunction with the covering report submitted to Strategy Committee.

Treasury management strategy and annual plan for 2004/05

1. Babergh District Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.
2. The full Treasury Management Strategy for 2004/05 will be presented to Strategy Committee in March 2004.
3. It is recommended that, for the purpose of setting prudential indicators, the following upper limits are set on its fixed and variable rate exposures for future financial years as follows:

	2004/05	2005/06	2006/07
Upper Limit of Fixed Rate Exposures	100%	100%	100%
Upper Limit of Variable Rate Exposures	70%	70%	70%

Note: The Council has no plans currently, however, to undertake any fixed or variable rate borrowings.

4. It is recommended that the Council approve the following limits on principal sums to be invested for periods greater than 364 days. These limits apply to investments with final maturities beyond the year-end.

	2004/05 £'000	2005/06 £'000	2006/07 £'000
Upper Limit of Principal Sums maturing beyond the year end	3000	3000	3000